

# The Impact of Traffic Pumping: Overview of 2010

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## Table of Contents

EXECUTIVE SUMMARY .....	3
ANALYSIS RESULTS.....	4
CONCLUSION .....	7
ABOUT CONNECTIV SOLUTIONS, INC. ....	7

## Executive Summary

In July 2010, Connectiv Solutions released [\*The Impact of Traffic Pumping\*](#), the first comprehensive report focused on the cost of Traffic Pumping to the industry. The July 2010 report analyzed 14 Billion rated Interexchange Carrier (IXC) call records which represented roughly 50% of the wireless industry. From this data, a traffic pumping profile was developed based on long distance wireless traffic call characteristics such as call duration, cost distribution among terminating phone numbers and call testing results. 25 Operating Company Numbers (OCNs) fit the profile and were estimated to be costing the wireless industry approximately \$191 Million in unrecoverable long distance (LD) costs in 2010.

Following the July 2010 report results, Connectiv Solutions performed custom studies which were used to reduce the client's exposure to traffic pumping costs via renegotiation of rates resulting in a cost savings of more than \$20 Million in LD expenses.

*The Impact of Traffic Pumping: Overview of 2010* looks at the actual costs for 2010 reflecting the cost savings achieved and reforecasts the long-term costs of traffic pumping to the wireless industry. Using the same dataset, we see a consistent increase in the Minutes Of Usage (MOUs) and estimate the 2011 costs to the wireless industry at \$170 M annually.

While service providers seek interim solutions, the FCC has given inter-carrier compensation a high priority in their 2011 agenda and seeks a long-term resolution through regulation.

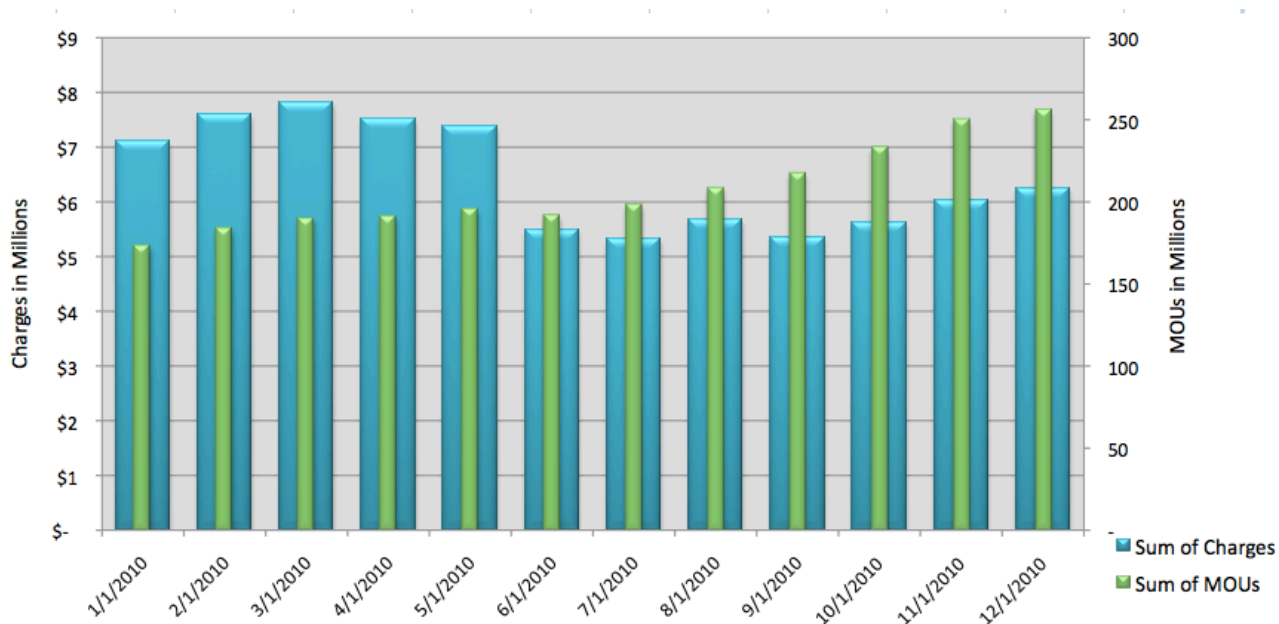
## Analysis Results

The 2010 Overview dataset reflects our client's renegotiated LD contract rates and savings.

Description	2010 Overview Study Results
Annual LD Costs for all Wireless Providers terminating to the 25 OCNs	\$154,464,534
Annual LD Costs terminating to the 25 OCNs	\$77,232,267
Average Monthly LD Costs terminating to the 25 OCNs	\$6,436,022
% LD Costs terminating to the 25 OCNs	9%
Average Monthly LD MOUs terminating to the 25 OCNs	<b>207,380,950</b>
% LD MOUs terminating to the 25 OCNs	3%
% Unique Subscribers calling the 25 OCNs	0.7%

- Less than 1% of subscribers called the 25 OCNs yet accounted for 9% of the total variable LD costs.
- With custom traffic studies, clients reduced their blended IXC rates to the 25 OCNs up to 70%. Yet as minutes to them increase at a steady rate, costs continue to rise.

## Traffic Pumping Cost and MOU Trend in 2010



### 2010 Findings:

Leveraging Connectiv Solutions clients reduced their blended IXC rates to these 25 OCNs by more than 70% in some cases. They were able to focus on those carriers which have the most impact to their overall network expenses. However minutes to these same 25 OCNs continue to increase at a healthy rate.

MOUs increased by 48% but charges decreased by 12% due to renegotiation of LD rates.

### 2011 Estimate:

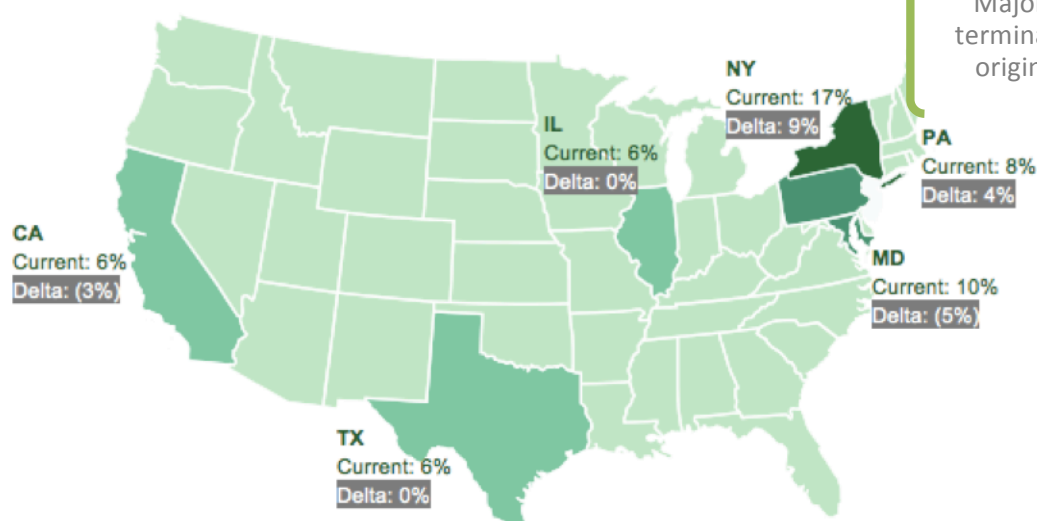
Based on the increasing MOUs trend and the average rate per MOU, we estimate Traffic Pumping will cost the wireless industry over \$170M in 2011 in LD alone.

Traffic Pumping costs are estimated at **\$170M in 2011** in LD alone.

## Originating Locations for Traffic Pumping Cases

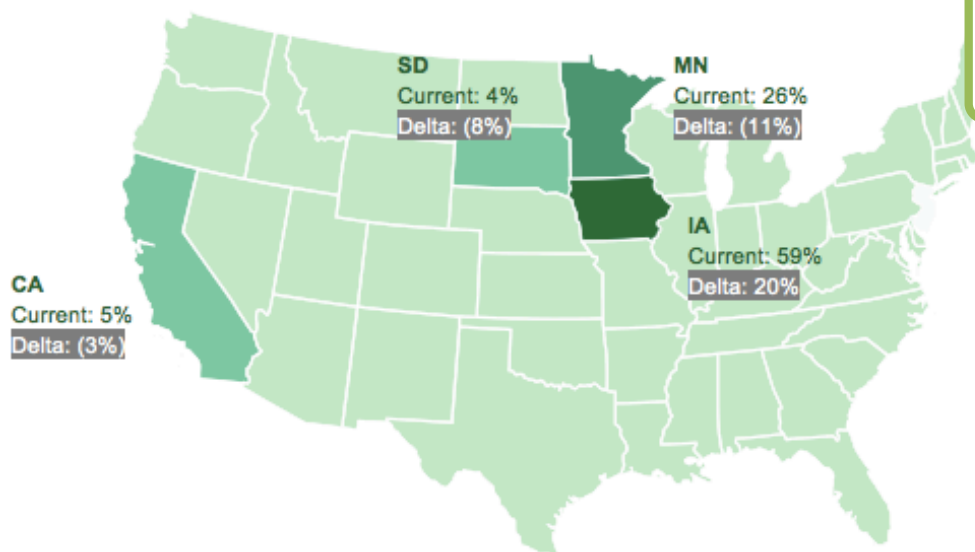
As word spreads about these free chat services we anticipate calls terminating to Traffic Pumpers will expand across the United States. Comparing April and December datasets, we can already measure a significant increase in the volumes of calls originating within NY. Delta values in the graphs represent 2010 overall percentages compared to the July 2010 study percentages.

Origination States based on December 2010 LD Traffic



Majority of the calls terminated to 25 OCNs originated from NY.

Termination States based on December 2010 LD Traffic



IA represents 59% of the calls terminated to 25 OCNs.

## Regulatory Updates on Traffic Pumping

In February 2011 the FCC released a notice for proposed rulemaking addressing various topics including Traffic Pumping, Phantom Traffic and Inter-carrier compensation (ICC). This NPRM can be downloaded at [http://www.fcc.gov/Daily\\_Releases/Daily\\_Business/2011/db0209/FCC-11-13A1.pdf](http://www.fcc.gov/Daily_Releases/Daily_Business/2011/db0209/FCC-11-13A1.pdf).

## Conclusion

The objective of this study is to provide an update on the impact of a practice defined by the FCC as Traffic Pumping or Access Stimulation. Our latest analysis indicates that while the cost for the traffic terminating to our 25 OCNs decreased the minutes increased by nearly 50%. This is mainly because of the LD rate re-negotiations that our clients had with their respective IXCs. Even with these lower rates, Connectiv Solutions calculates the total LD cost associated with traffic pumping will exceed \$170M dollars in 2011.

Connectiv Solutions believes this issue will ultimately be resolved through policy established by the telecommunications regulatory bodies. Until those regulatory changes are adopted, Service Providers are applying interim solutions to reduce the impact of Traffic Pumping on their network.

## About Connectiv Solutions, Inc.

Connectiv Solutions, the network efficiency experts, delivers unparalleled visibility and management of telecommunications network usage expenses. Telecom carriers representing more than 120 million customers rely on Connectiv Solutions to reduce operational costs and maintain a competitive advantage. Our ability to quickly collect, enrich and analyze billions of CDRs streamlines the discovery to implementation process for our clients maximizing their overall return on investment. For more information, visit [www.connectiv-solutions.com](http://www.connectiv-solutions.com).